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SUBJECT: FRANCE: TOTAL SA LEADS THE NORTH CASPIAN OPERATING COMPANY

Ref. A) Astana 2072 B) 08 Astana 2176.

Classified by Econ Minister Counselor Seth Winnick for reasons 1.4
(B) and (D).

11. (C) Summary. The North Caspian Operating Company (NCOC) will oversee planning and development of Kazakhstan's rich North Caspian petroleum resources, but the seven NCOC partner companies are on their own to get the crude to the market. NCOC faces numerous challenges: a harsh climate, sensitive geological issues, and a local administration and legal framework unprepared to cope with the deal. Because of the cost and complexity of its main project, development of the giant Kashagan field in Western Kazakhstan, NCOC has adopted unprecedented corporate arrangements in part held together by common political interests. France's national champion, Total, enjoys the political backing of President Sarkozy who considers Kazakhstan to be France's major strategic partner in Central Asia. End summary.

NCOC: a complex company, a complex project

12. (C) The North Caspian Operating Company (NCOC) is unprecedented in the oil industry, measured by its corporate arrangements and the complexity of its projects, Total executive Pierre Offant told us. The first Managing Director of NCOC, Offant, is based in Astana and makes regular trips to NCOC's Paris office. Since January 2009, NCOC has been the sole operator of assets within the North-Caspian Sea Production Sharing Agreement area, replacing Agip KCO (Ref A). The area includes the giant Kashagan field discovered in 2000. Considered to be the biggest hydrocarbon discovery since the late 1960s, and the first large-scale offshore petroleum development in Kazakhstan, the Kashagan field is so big, and its deposits so complex, Offant emphasized, that no one international oil major could develop it alone.

13. (U) Five of NCOC's seven partner companies have an equal 16.8 percent interest in the company: ENI, ExxonMobil, KMG (Kazakh national oil company), Shell, and Total. The other two partners are ConocoPhillips (8.4 percent) and the Japanese firm Inpex (7.56 percent). All partner companies contribute to NCOC staff but follow the Total management culture. The Managing Director of NCOC will rotate among the partner companies every two to three years (Ref B). NCOC's Deputy Manager comes from the state-owned KMG.

Getting the Oil Out

14. (C) NCOC's authority extends to -- but not beyond -- the processing plant or oil delivery point in Atyrau, the oil capital of Kazakhstan 1,100 miles west of Astana. Total and other NCOC partners are on their own when it comes to getting Kashagan crude to the market, Offant said. Each company handles its own commercial and property rights, as well as downstream activities. Offant stressed his job is to manage the NCOC work projects and budget and interface

with the Kazakh government on behalf of the partner companies. He said his personal opinion is that oil could be transported through the Kazakhstan Caspian Transport System, which will take crude west across the Caspian through Azerbaijan. Alternative transport routes go across the Caspian to Iran, through the BTC (Baku-Tbilisi-Ceyhan), or the CPC (Caspian Pipeline Consortium) pipelines. Rail lines could also transport Kashagan crude by land, Offant suggested. (Note: Existing rail lines go to the countries of the former Soviet Union. End note.)

Current challenges

15. (C) It has been a unique challenge to manage a handful of Western oil majors with equal stakes in the Kashagan deal, Offant stressed. The companies differ on technical and financial issues although they had a common political interest, he noted. Logistics are another worry; organizing meetings in the world's ninth largest country (in area) is difficult given limited internal flights. The complexity of NCOC's corporate arrangements is also something the state of Kazakhstan is not fully prepared for, Offant added. The international oil companies are familiar with administrative hurdles in new markets, but the lack of common business methods and uncertainty in the application of the Kazakh legal framework has been difficult, he conceded.

Biographical Note

16. Pierre Offant is trained in engineering and economics. He joined Total in 1977 and has held different positions in the company's Exploration and Production Division. Offant is former Managing

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Director for the company's affiliates in Australia, the Democratic Republic of the Congo, and Norway. At Total's headquarters near Paris, he previously headed the Gas and Power Business Development office.

Comment

17. (SBU) France's national champion hopes to strengthen its presence in a key Central Asian energy market by taking the helm of the NCOC. Rich in oil and uranium, Kazakhstan attracted Total and Areva years ago but President Sarkozy has given new impetus to the economic relationship. Total's CEO went with Sarkozy to Kazakhstan last month where the president said the GOF will "invest politically, diplomatically and economically." The two countries signed 24 agreements in a range of sectors: military communications equipment, media, culture, tramways, and uranium processing. Forty French companies are now represented in Kazakhstan and bilateral trade reached USD 6 billion last year, according to Kazakh Ambassador to France, Nuran Danenov.

18. (SBU) France has decided to concentrate national efforts on building "privileged relations" with a select number of countries: Germany, Brazil, Egypt, India, South Africa, Mexico, and Kazakhstan. In Central Asia, Kazakhstan is the GOF's "major strategic partner" and leader in maintaining regional security. Each year the two countries will meet (alternating Astana and Paris) to address their 2008 bilateral "strategic partnership agreement" (yet to be ratified). Sarkozy plans to go to Kazakhstan next year for either the strategic partnership or the Organization for Security and Cooperation in Europe summit (OSCE). In 2007, Sarkozy and Bernard Kouchner supported Kazakhstan's bid for the 2010 OSCE chairmanship and this underscores why the French are pushing hard for the OSCE summit.

19. (SBU) Embassy Paris coordinated with Embassy Astana for this report.

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